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Edmonton, Alberta T6G 2R6

Westgroup

*WESTGROUP CORPORATIONS INC.*

*1994 Annual Report*

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### Notice of Annual Special and General Meeting

Westgroup's Annual Special and General Meeting of holders of Common Shares will be held in the Howard board room at 1000, 400 Third Avenue S.W. at Calgary, Alberta at 10:00 a.m., Calgary time on Tuesday, December 20, 1994.



## Report to the Shareholders

The year ended June 30, 1994 completed the final stages of corporate restructuring for Westgroup Corporations Inc. ("Westgroup" or "the Corporation"). In accordance with the conclusion of Westgroup's reorganization the Corporation's financial results reflect modest progress over fiscal 1993.

Revenues for the twelve month period increased to \$12,927,489 from \$7,664,165 in 1993, an improvement of 68%. This revenue increase was achieved while reducing overall expenses as Westgroup continued to rationalize operations and concentrate on the core food businesses. These strides provided for a noticeable improvement in Westgroup's overall financial performance. The Corporation posted a net loss for the year of (\$806,088) or (\$0.02) per share as compared to (\$2,741,841) or (\$0.16) per share in 1993. The Corporation's financial strengthening is also evidenced by the cash position of \$1,196,155 as of June 30, 1994.

Westgroup has achieved these gains through a combination of equity financings and new management as well as the acquisition of Mrs. Willman's Baking. The operating assets of Mrs. Willman's Baking of Burnaby, British Columbia were acquired for a cash consideration of \$1,395,000 with an effective date of September 24, 1994.

The Corporation also completed two major equity financings in the past year. Westgroup completed a Rights Offering to its shareholders on March 31, 1994. The Rights Offering was fully subscribed and resulted in the issuance of 9,000,485 common shares of the Corporation for a net proceeds of \$900,048. The Rights Offering provided shareholders in qualified jurisdictions with one Right for each share owned at March 3, 1994. Four (4) Rights enabled the holder to purchase one (1) additional share of Westgroup for \$0.10 per share.

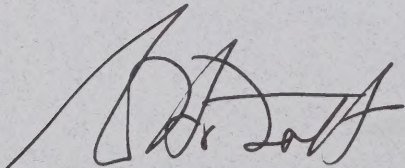
Management changes also played an important role in the Corporation's restructuring in 1994. Mr. Thomas Stibbard resigned his office as President on February 23, 1994, primarily due to the change in Westgroup's operating focus towards a strictly food based organization. Mr. Eric Olsen replaced Mr. Stibbard as President and was also appointed Chief Operating Officer in March, 1994. Mr. Richard Shillington also resigned his positions as Chairman and Director of Westgroup Corporations during the year so as to concentrate on his other business interests; he remains a large and supportive shareholder of the Corporation. The Board wishes to thank Mr. Shillington for the significant role he played during the Company's restructuring, his resignation was accepted effective June 30, 1994. Mr. Winston Ho Fatt was selected as Chairman in Mr. Shillington's place and remains C.E.O. of the Corporation. These management changes provide Westgroup with an experienced senior management team with extensive expertise in the Canadian food industry.

Subsequent to the year end, on October 12, 1994, the purchase of the Ho Fatt Group of companies was completed. The purchase price for these acquisitions was satisfied principally by the issuance of 72 million shares consisting of 1 million Class A shares and 71 million Class B, Series 1, non-voting shares. The acquisition provides Westgroup with an established, market proven line of a variety of frozen food, niche products as well as a substantially increased asset base.

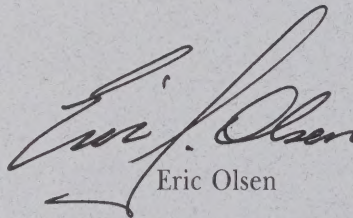
Management plans to continue the development of Westgroup into a focused, efficient and growth oriented food organization in fiscal 1995 while maintaining a strong cash position and balance sheet.

The Corporation expects to achieve sales in excess of \$25,000,000 and operating cash flow in excess of \$2,500,000 in 1995. Westgroup has put into place plans that it expects will enable it to continue to grow at greater than 30% per year in sales and operating cash flow. A significant portion of its future earnings will be shielded from income taxes. The Corporation has developed a strategic plan to ensure that its targets are met. Included among these plans are an expansion into the United States market, new product development, increased marketing efforts and logical acquisitions.

Respectfully submitted on behalf of the Board,



Winston Ho Fatt  
Chairman and  
Chief Executive Officer



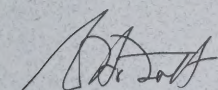
Eric Olsen  
President and  
Chief Operating Officer

## Management's Responsibility for Financial Statements

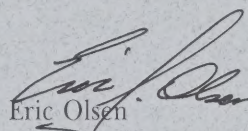
The accompanying consolidated financial statements of Westgroup Corporations Inc. have been prepared by management in accordance with generally accepted accounting principles consistently applied. The Company's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared with this in mind and within reasonable limits of materiality. The financial information throughout the text of this annual report is consistent with the information presented in the financial statements.

Peat Marwick Thorne, Chartered Accountants, having been appointed by the shareholders of the Company to serve as the Company's external auditors, have examined the consolidated financial statements of the Company for the years ended June 30, 1994 and June 30, 1993.

The Audit Committee has reviewed these statements with management and the auditors, and has reported to the Board of Directors. The Board has approved the consolidated financial statements of the Company herein.



Winston Ho Fatt  
Chairman and Chief Executive Officer



Eric Olsen  
President and Chief Operating Officer

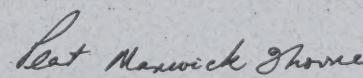
## Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Westgroup Corporations Inc. as at June 30, 1994 and 1993 and the consolidated statements of loss and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

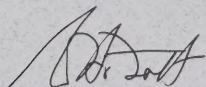
Calgary, Canada  
August 12, 1994

  
Chartered Accountants

## Consolidated Balance Sheets

June 30, 1994 and 1993	1994	1993
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,196,155	\$ 416,583
Accounts receivable (note 3)	1,064,962	574,588
Inventory	768,940	551,468
Prepaid expenses	153,919	130,062
	3,183,976	1,672,701
Investments (note 4)	435,715	487,405
Capital assets (note 5)	3,791,113	3,558,249
	\$ 7,410,804	\$ 5,718,355
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Bank loan (note 6)	\$ 723,393	\$ 332,617
Accounts payable and other liabilities (note 2)	897,881	1,115,432
Current portion of long-term debt (note 6)	189,008	182,601
	1,810,282	1,630,650
Long-term debt (note 6)	1,823,447	2,024,364
Deferred income taxes	—	35,064
Shareholders' equity:		
Share capital (note 7)	19,542,482	16,987,596
Deficit	(15,765,407)	(14,959,319)
	3,777,075	2,028,277
Commitments and contingency (note 11)		
Subsequent event (note 13)		
	\$ 7,410,804	\$ 5,718,355

On behalf of the Board:

  
Winston Ho Fatt  
Director

  
Peter Kreutzer  
Director

See accompanying notes to consolidated financial statements.

**Consolidated Statement of Loss and Deficit**

Years ended June 30, 1994 and 1993	1994	1993
Revenue	\$ 12,927,489	\$ 7,664,165
Cost of sales:		
Direct expenses	11,674,485	6,717,844
Depreciation and amortization	530,200	721,648
	12,204,685	7,439,492
Operating margin	722,804	224,673
Other expenses:		
Corporate and other	933,857	1,335,116
Administrative	745,226	1,126,348
Interest	345,993	424,327
Depreciation and amortization	22,136	38,383
	2,047,212	2,924,174
Loss before the following	(1,324,408)	(2,699,501)
Other:		
Gain on sale of investments	483,256	—
Gain on financial restructuring (note 8)	—	424,180
Loss on foreclosure (note 6)	—	(312,764)
Loss in earnings of Ventex (note 8)	—	(29,992)
Minority interest	—	90,575
	483,256	171,999
Loss before income taxes and discontinued operations	(841,152)	(2,527,502)
Income taxes (note 9):		
Deferred (recovery)	(35,064)	(49,500)
Loss from continuing operations	(806,088)	(2,478,002)
Discontinued operations	—	(263,839)
Net loss	(806,088)	(2,741,841)
Deficit, beginning of year	(14,959,319)	(12,155,736)
Excess of cost over carrying value of common shares	—	(61,742)
Deficit, end of year	\$(15,765,407)	\$(14,959,319)
Loss per share (note 10)	\$ (0.02)	\$ (0.16)

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Financial Position

Years ended June 30, 1994 and 1993	1994	1993
Cash provided by (used in):		
Operations:		
Loss from continuing operations	\$ (806,088)	\$(2,478,002)
Depreciation and amortization	552,336	760,031
Loss of subsidiary deconsolidated	—	522,940
Loss on foreclosure	—	312,764
Loss in earnings of Ventex	—	29,992
Gain on sale of investments	(483,256)	—
Deferred income taxes	(35,064)	(49,500)
Minority interest	—	(90,575)
Gain on financial restructuring	—	(424,180)
	(772,072)	(1,416,530)
Net change in non-cash working capital balances	(298,810)	(660,009)
	(1,070,882)	(2,076,539)
Net loss from discontinued operations	—	(1,070,882)
Net cash used in operations	(1,070,882)	(2,340,378)
Financing:		
Issue of shares, net of issue costs	2,624,443	2,494,456
Repurchase and cancellation of shares	(69,557)	(341,530)
Bank financing, net of repayments:		
Bank loan	390,776	(118,723)
Demand loan	(177,302)	(293,587)
Mortgages	(38,015)	(840,507)
Capital leases, net of repayments	20,807	(17,328)
Advances to related parties, net	69,557	(197,110)
Loans receivable	(3,316)	44,203
Net cash from financing activities	2,817,393	729,874
Investments:		
Proceeds from sale of investments	626,261	1,541,970
Disposal (purchase) of capital assets, net	(110,200)	770,736
Acquisition of investments	(88,000)	(50,006)
Acquisition of business	(1,395,000)	—
Product development	—	(30,186)
Net cash used in investing activities	(966,939)	2,232,514
Net change in cash during the year	779,572	622,010
Cash (bank indebtedness), beginning of year	416,583	(205,427)
Cash, end of year	\$ 1,196,155	\$ 416,583

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

Years ended June 30, 1994 and 1993

### NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of presentation

The consolidated financial statements include the accounts of Westgroup Corporations Inc. (the "Company") and its subsidiaries. During 1993, the Company's ownership position in a subsidiary, Ventex Technologies Corporation ("Ventex"), was reduced as a result of the financial restructuring, to an equity position. The results of operations and changes in financial position of this subsidiary were consolidated until the controlling position was relinquished. The Company is accounting for its investment in Ventex using the cost method, as the Company does not have significant influence over the investment.

Two subsidiaries, Sparrow Electric Corporation and Pembina Controls Ltd., were placed into receivership on November 19 and 26, 1992, respectively, and accordingly the results of operations and changes in financial position of these two subsidiaries during 1993 have been reflected as discontinued operations.

#### (b) Inventory

Inventory is recorded at the lower of average cost and net realizable value.

#### (c) Capital assets

Capital assets are recorded at cost. Depreciation on capital assets is provided at rates consistent with their expected life, using the following rates and methods:

Buildings	5% to 10% straight-line
Automotive	25% to 40% declining balance
Equipment	10% to 25% declining balance

### NOTE 2. RELATED PARTY TRANSACTIONS

- In 1993, the Company settled a claim, in the amount of \$300,000, relating to financing by a shareholder, who subsequently became a director and officer. The settlement consisted of a transfer of assets which had been purchased for \$160,000 resulting in a gain to the Company of \$140,000 which is included in corporate and other expenses.
- During 1993, the Company obtained a release from certain future commitments and settled all obligations and advances to a former director and officer resulting in a charge of \$187,000 which is included in corporate and other expenses.
- During 1994, the Company settled a loan in the amount of \$69,552, which was previously included in accounts receivable, to an officer and director by the cancellation of 62,100 common shares.
- To assist in the acquisition of the operating assets of Mrs. Willman's Baking (see note 4), the Company was advanced \$300,000, bearing interest at 10%. This amount was paid during 1994.

### NOTE 3. ACCOUNTS RECEIVABLE

	1994	1993
Trade	\$1,033,184	\$415,827
Notes and receivables due from related parties	31,778	158,761
	\$1,064,962	\$574,588

## NOTE 4. INVESTMENTS

	1994	1993
Portfolio investments, at cost	\$ —	\$ 55,006
Foreign investment (note 8)	25,000	25,000
Investment in Ventex, at cost (note 8)	385,979	385,979
Loans receivable	24,736	21,420
	<u>\$435,715</u>	<u>\$487,405</u>

During 1993, the Company's subsidiary, Bertonee Inc., acquired an Alberta Stock Exchange listed company, Ventex Resources Corporation (subsequently renamed Ventex Technologies Corporation) which business combination resulted in the Company owning approximately 70% of Ventex.

This acquisition was accounted using the purchase method as follows:

Net assets acquired:	
Cash	\$108,837
Current assets	2,538
Current liabilities	(16,064)
Net assets	95,311
Goodwill	262,304
	<u>\$357,615</u>
Consideration:	
Share capital of Bertonee Inc.	<u>\$357,615</u>

Subsequent to this acquisition, the financial restructuring referred to in note 8 resulted in the Company owning 23% of the common shares of Ventex.

Effective September 23, 1993, the Company acquired the operating assets of Mrs. Willman's Baking. The acquisition has been accounted for by the purchase method. This addition will allow for expansion of existing business activities:

Net assets acquired:	
Accounts receivable	\$ 752,788
Inventory	186,652
Capital assets	675,000
Accounts payable	(219,440)
Total assets required	<u>\$1,395,000</u>
Consideration rendered:	
Cash	<u>\$1,395,000</u>

## NOTE 5. CAPITAL ASSETS

			1994	1993
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 415,000	\$ —	\$ 415,000	\$ 415,000
Buildings	1,532,186	237,618	1,294,568	1,362,672
Automotive	511,780	396,807	114,973	150,882
Equipment	4,245,006	2,288,919	1,956,087	1,604,126
	6,703,972	2,923,344	3,780,628	3,532,680
Equipment under capital lease	40,222	29,737	10,485	25,569
	\$6,744,194	\$2,953,081	\$3,791,113	\$3,558,249

## NOTE 6. DEBT

*(a) Bank loan*

The bank loan, payable by a subsidiary, is a revolving line of credit, payable on demand, bears interest at prime plus  $\frac{3}{4}$  % per annum and is secured by: a general assignment of accounts receivable; a fixed and floating charge debenture over capital assets; a chattel mortgage; assignment of insurance proceeds; a Section 178 security covering all inventory of the subsidiary, and a postponement of claim by the Company.

*(b) Long term debt*

	1994	1993
Mortgages, repayable in monthly instalments of \$19,622 blended principal and interest, bearing interest at rates varying from 10% to 11.375%, amortized over 25 years, secured by land and building	\$1,835,608	\$1,873,623
Demand loan, repayable in monthly payments of \$15,000 principal plus interest at bank prime plus $1\frac{1}{4}$ % per annum secured as described in note 6(a)	152,698	330,000
Capital lease, due 1997, payable monthly including interest at 11% on an automobile which is pledged as security for the contracts	24,149	3,342
	2,012,455	2,206,965
Less: Current portion	189,008	182,601
	\$1,823,447	\$2,024,364

Included in interest expense is \$242,744 (1993 — \$268,095) paid during the year on long-term debt.

The Company is required to make the following principal payments.

	Long-term Debt	Capital Leases	Total
1995	\$ 182,048	\$ 6,960	\$ 189,008
1996	33,378	6,960	40,338
1997	37,350	6,960	44,310
1998	41,797	3,269	45,066
1999	46,772	—	46,772
Thereafter	1,646,961	—	1,646,961
	\$1,988,306	\$24,149	\$2,012,455

- (c) During 1993, the Company surrendered ownership of a property having a net book value of \$1,120,000 by settling with the first mortgage holder resulting in a reduction of long-term debt of \$808,000 and a net loss on disposal of the property in the amount of \$312,764.

#### NOTE 7. SHARE CAPITAL

##### (a) Authorized

Unlimited Class A common shares

	1994		1993	
	Shares	Amount	Shares	Amount
Class A share capital outstanding at beginning of year	30,658,684	\$17,575,499	11,670,672	\$15,306,140
(i) Issued for cash:				
Directors' and employees' options exercised	546,000	76,440	—	—
Rights offering	8,917,229	891,723	—	—
Private placements	13,012,476	1,500,000	19,161,755	2,402,638
	22,475,705	2,468,163	19,161,755	2,402,638
(ii) Issued for other considerations:				
Issued to settle lawsuit	499,956	—	—	—
Settlement with a former officer and director	500,000	50,000	—	—
Directors, officers and consultants for services received	965,922	144,000	330,400	146,509
(iii) Shares repurchased and/or cancelled to settle debts	(64,100)	(69,557)	(504,143)	(279,788)
	1,901,778	124,443	(173,743)	(133,279)
Class A share capital outstanding at end of year	55,036,167	20,168,105	30,658,684	17,575,499
Less cumulative issue costs	—	(625,623)	—	(587,903)
	55,036,167	\$19,542,482	30,658,684	\$16,987,596

Included in shares issued for cash are private placements for 12,714,980 (1993 — 1,445,345) shares which were issued to officers and directors of the Company. Issuance of shares for services received and repurchase for cancellation of shares to settle debt were at market prices.

During 1993, 428,300 common shares were issued to a former employee in a manner which was likely not in compliance with the Business Corporations Act (Alberta). Subsequent to year end the same individual, upon demand by the Corporation, returned 428,300 common shares to the Company for cancellation in partial settlement of a related outstanding indebtedness owed to the Company. The cancellation of these shares has been recorded at year end with the excess of the cost over the assigned value of these shares charged to retained earnings.

During 1993, the Company was a defendant in a claim for \$381,150 relating to a guarantee granted to vendors of a building purchased by the Company for the cash value of shares. This claim was settled out of court by payment of \$33,000 during 1993 and the issue of net 499,956 Class A common shares for nil consideration during 1994.

Issue costs are disclosed net of related deferred income taxes.

(b) The changes in outstanding options, warrants and royalty conversions during 1994 were as follows:

	Options	Warrants	Royalty Conversions
Outstanding, June 30, 1993	2,283,500	4,843,407	3,290,364
Issued during the year	1,560,000	10,739,749	—
Expired during the year	—	(4,143,407)	(3,290,364)
Exercised	(546,000)	—	—
Outstanding, June 30, 1994	3,297,500	11,439,749	—

- (i) Options to purchase Class A common shares are exercisable at prices between \$0.14 and \$2.50 and expire at various times until February 1999.
- (ii) Warrants which enable the holder to purchase one Class A common share of the Company at prices between \$0.11 and \$0.18 expire at various times until March 1996.
- (iii) All royalty conversion options have expired.

#### NOTE 8. FINANCIAL RESTRUCTURING

During 1993, the Company issued a debenture in the amount of \$1,000,000 U.S., bearing interest at 12% per annum secured by a general security agreement and a guarantee from a former director, together with 700,000 share purchase warrants to purchase Class A common shares at varying prices. Subsequent to the issue of the debenture the Company was in default of certain covenants and consequently completed a debt restructuring agreement with the debenture holder having the following significant features:

- sold the foreign investment for \$294,714 U.S. (including accrued interest), plus an assumption by, and indemnification from the debenture holder for all identified liabilities arising out of guarantees issued upon acquisition of the foreign investment and subject to the Company retaining a 20% reversionary interest (to which the Company has ascribed a value of \$25,000) after payout;
- sold 5,600,000 shares of Ventex for \$776,973 U.S. including accrued interest; and
- amended the exercise price for the 700,000 share purchase warrants to \$0.11 per Class A common share exercisable on or before April 23, 1995.

#### NOTE 9. INCOME TAXES

Total income taxes are different from the amount computed by applying the combined expected Canadian Federal and Provincial tax rates of 44.3% (1993 — 44.2%) to income before income taxes. The reasons for the difference are as follows:

	1994		1993	
	%	\$	%	\$
Computed expected tax recovery	(44.3)	(372,630)	(44.3)	(1,119,700)
Benefit of tax losses not recognized	45.5	382,835	37.8	955,560
Amortization of non-tax based assets	—	—	4.4	110,000
Non-deductible portion of capital gains	(6.4)	(53,521)	—	—
Non-deductible expenses	1.0	8,252	0.2	4,640
Total income taxes, as reported	(4.2)	(35,064)	(1.9)	(49,500)

At June 30, 1994 the Company has losses aggregating \$11,951,000 (1993 — \$10,304,000) available to reduce income for income tax purposes in future years, the tax effect of which has not been recognized in these financial statements. These losses expire in varying amounts from the year 1995 to 2002.

## NOTE 10. LOSS PER SHARE

Loss per share is based on the weighted average number of shares outstanding during the year. Fully diluted earnings per share, based on the weighted average number of shares that would have been outstanding during the year had the options and warrants outstanding been exercised at the time they were earned or issued, would be anti-dilutive.

## NOTE 11. COMMITMENTS AND CONTINGENCY

The Company is committed to making the following payments for leased premises:

1995	\$251,700
1996	246,000
1997	246,000
1998	174,000
1999	42,750

A secured creditor of Sparrow Electric Corporation ("Sparrow") has appealed a court decision wherein Revenue Canada successfully claimed priority over this creditor with respect to amounts owed by Sparrow regarding unpaid payroll withholdings. Should the decision in favour of Revenue Canada be reversed upon appeal, Revenue Canada may have a potential claim against the directors of Sparrow. The Company has indemnified the directors and consequently is potentially liable for payment of up to \$925,000. The ultimate outcome of the appeal is presently not determinable.

## NOTE 12. DISCONTINUED OPERATIONS

During 1993, two subsidiary companies in the electrical contracting segment were placed into receivership. The investments in Sparrow Electric Corporation and Pembina Controls Ltd. of \$10,004 and the intercompany receivables of \$3,712,362 were written off in 1992. Advances during 1993 in the amount of \$263,839 were written off in 1993.

## NOTE 13. SUBSEQUENT EVENT

The Company has entered into an agreement, effective July 1, 1994, with a director of the Company to purchase a group of food production and sales companies controlled by a director of the Company and his group of investors (the "Ho Fatt Group"). The Company will give, as consideration, one million Class A common shares and seventy-one million non-voting Class B common shares, Series 1. The agreement is subject to the approval of the Company's shareholders.

## Corporate Directory

### DIRECTORS

Winston Ho Fatt

Andrew Hyslop

Peter Kreutzer

### TRANSFER AGENT

Montreal Trust  
Calgary, Alberta

### LEGAL COUNSEL

Howard, Mackie  
Calgary, Alberta

### AUDITORS

Peat Marwick Thorne  
Calgary, Alberta

### HEAD OFFICE

#4, 4826 - 11 Street N.E.  
Calgary, Alberta T2E 2W7  
Tel: (403) 250-8757  
Fax: (403) 250-8709

### OFFICERS

Winston Ho Fatt  
Chairman of the Board and  
Chief Executive Officer

Andrew Hyslop  
Secretary

Eric Olsen  
President and  
Chief Operating Officer

### BANKERS

Royal Bank of Canada  
Calgary, Alberta

### STOCK EXCHANGE LISTING

The Alberta Stock Exchange  
Calgary, Alberta

### STOCK SYMBOL

WLA

